



REPORT ON PRIVATE INSURANCE – 2003

To Governor Holden and the Missouri General Assembly

P. O. Box 836
Jefferson City, MO 65102
www.pstif.org

I. BACKGROUND	1
II. PURPOSE OF THIS REPORT	1
III. PRIVATE INSURANCE	2
IV. COVERAGE DIFFERENCES	2
V. CONCLUSIONS AND RECOMMENDATIONS	3

Appendix A – Methodology Used To Gather Information for the Report

Appendix B – ASTSWMO Questionnaire

Appendix C – Communications Received In Response To Mailing

Appendix D – PSTIF Advisory Committee

**Missouri Petroleum Storage Tank Insurance Fund
2003 Report
To Governor Holden and the Missouri General Assembly**

I. BACKGROUND

Missouri's Petroleum Storage Tank Insurance Fund (PSTIF) has been insuring owners/operators of underground storage tanks since May 1992, and owners/operators of aboveground tanks (at retail locations) since January 1998. The program was originally established because underground tank owners/operators are required by law to have a "financial responsibility mechanism" to pay for cleanup if/when a leak occurs, and in the late 1980's and early 1990's, commercial insurance was expensive and/or unavailable.

In the mid-1990's the responsibilities of the PSTIF were expanded. In addition to serving as an insurer for persons who are currently storing petroleum in tanks, the Fund was directed by the Missouri General Assembly to pay for cleanup of old tank sites, where tanks were no longer in use, but pollution remained. This responsibility has been a significant one, accounting for the majority of the monies PSTIF has spent to date for cleanup.

Currently, the PSTIF insures 85% of the underground tanks currently used to store petroleum in Missouri, and 24% of the eligible aboveground tanks. A fee charged on all petroleum coming into Missouri provides most of the Trust Fund's revenues; however, tank owners who choose to obtain insurance coverage from PSTIF also pay a nominal annual premium ranging from \$100 to \$150 per tank. Policies are renewed annually.

Since inception, the PSTIF has paid out nearly \$100 million for cleanup at 1500 sites.

II. PURPOSE OF THIS REPORT

The PSTIF is managed by an eleven-member Board of Trustees, (See Section 319.129, RSMO). The Board has appointed an Advisory Committee -- composed of tank owners, petroleum marketers, consultants, insurance industry representatives, lawyers, and state regulators -- to provide advice and recommendations on the operations of the Fund. (Current members of the Advisory Committee are listed in Appendix D.)

The PSTIF Advisory Committee is also required to "annually report to the general assembly on the availability and affordability of the private insurance market..." (Section 319.131.2, RSMO).

In addition, in his FY04 Budget and Legislative Agenda, Governor Holden asked that an examination of privatization opportunities be done to ensure that the PSTIF is the most efficient and cost-effective means of assuring that sites are cleaned up. This report responds to his directive.

III. PRIVATE INSURANCE

A. Various commercial insurance companies offer pollution liability insurance coverage which meets the requirements of state and federal law for underground tank owners; however, the cost of coverage is higher than the premiums charged by the PSTIF.

A member of the Advisory Committee who is an experienced insurance broker contacted two insurance carriers with a description of two "typical tank sites" insured by PSTIF and inquired about coverage. Zurich Insurance Group and AIG Environmental both responded that coverage would be available; premiums would likely range from \$325-375 per tank for underground tanks, and about \$750 per tank for aboveground tanks.

Federated Insurance and Colony Insurance responded to the Advisory Committee's mailing, confirming that coverage is available which meets the requirements of federal and state law. Both indicated premiums depend on underwriting risk and other factors. Federated noted costs generally begin around \$300-400 per tank.

Several people responded to a mailed inquiry from the Advisory Committee, indicating their insurance agent or broker had confirmed that coverage is available. Two suggested premiums as low as \$150-300 per tank might be available.

B. Several PSTIF policyholders expressed concerns about the likelihood that their costs would be higher if they were required to obtain insurance from a private company, and noted commercial insurers, unlike PSTIF, can withdraw from the market or decline to provide coverage.

The PSTIF does not exercise any discretion in response to insurance applications, as a commercial insurer would. If an applicant demonstrates compliance with relevant regulatory requirements and pays the nominal PSTIF premiums, coverage is provided.

IV. COVERAGE DIFFERENCES

A. PSTIF provides cleanup monies for old tank sites which were never insured, most of which were operated before today's environmental regulations were written, and for "old releases" which occurred at insured sites before they were insured. Obviously no private insurance company would do so.

These PSTIF claims are referred to as "remedial claims;" since inception, PSTIF has paid \$57 million for cleanup of these sites, compared to \$36 million for releases at insured sites.

B. Without examining language of specific insurance policies, including the PSTIF policy, it is not possible to definitively analyze coverage differences for active tank sites. However, some general conclusions may be drawn.

One of the most significant potential differences relates to the "trigger" for coverage; traditionally, commercial insurance policies provide coverage only in cases where the policyholder can demonstrate that a release from his tanks or piping occurred while he was insured; (he must also make a claim while insured). PSTIF has used a more "generous" approach, requiring only that petroleum in the ground be discovered, (and a claim made), while insurance is in force.

Commercial carriers can and do offer various benefit options, for varying premium rates. For example, a tank owner can buy coverage with a lower deductible than the \$10,000 deductible offered by PSTIF. Similarly, coverage for more "generous" coverage may also be available, but one commenter noted the costs would be significantly higher than charged by PSTIF.

A national task force of The Association of State and Territorial Solid Waste Management Officials (ASTSWMO) published a Guide to assist tank owners and state officials in examining these differences. Pertinent questions from that guide are presented in Appendix B.

C. Other comments were received from PSTIF policyholders.

These included the concern that if PSTIF were terminated and tank owners were compelled to obtain coverage from the private market, they would face the risk of companies withdrawing from the Missouri market, coverages being limited and/or prices being increased significantly from year to year.

One PSTIF participant noted his aboveground tanks are for his own use, and product is not offered for sale from them; thus, he cannot insure those tanks with PSTIF. He asked that this be changed. (Note: To do so would require a legislative amendment.)

V. CONCLUSIONS AND RECOMMENDATIONS

Currently, state law specifies that the PSTIF will "sunset" on December 31, 2010. It is likely that commercial coverage will be available to all or most PSTIF participants at that time, although it is not possible to predict costs. Further research and study will be needed to fully evaluate the options available, and to understand the consequences for tank owners and the public.

In general, PSTIF participants are relatively satisfied with the coverage and cost of liability protection that PSTIF provides. There is no indication that a significant change to the current program is advantageous at this time.

It is recommended that more detailed study be undertaken 2-3 years in advance of the scheduled PSTIF sunset date of 2010.

Appendix A

Methodology Used To Gather Information for the Report

The letter on the following page was sent to approximately 2,100 recipients, including:

- a) Members of the PSTIF Board of Trustees;
- b) Members of the PSTIF Advisory Committee;
- c) All tank owners/operators who are insured by PSTIF;
- d) Environmental consultants, lawyers, state agency personnel, and others who have expressed interest in being apprised of information on the PSTIF and who receive the PSTIF newsletter, *Latest Leaks*; and
- e) The enclosed list of insurance companies.

Attendance at the public meeting was small; a list of attendees is enclosed. Comments made by attendees were incorporated into this report.

In addition, information collected by Paul Dobinsky, an experienced insurance broker who is a member of the Advisory Committee, was used to prepare this report.



BOB HOLDEN
GOVERNOR
CAROL R. EIGHMEY
EXECUTIVE DIRECTOR

September 3, 2003

Dear Colleague:

Missouri's Petroleum Storage Tank Insurance Fund (PSTIF) has been insuring owners/operators of underground tanks since May 1992, and owners/operators of aboveground tanks (at retail locations) since January 1998. The program was originally established because underground tank owners/operators are required by law to have a "financial responsibility mechanism" to pay for cleanup if/when a leak occurs, and in the late 1980's and early 1990's, commercial insurance was expensive and/or unavailable.

In the mid-1990's, the responsibilities of the PSTIF were expanded. In addition to serving as an insurer for persons who have petroleum tanks at their businesses, the Fund was directed by the Missouri Legislature to pay for cleanup of old tank sites, where the tanks were no longer in use, but pollution remained. This responsibility has been a significant one, accounting for 60% of the monies spent to date for cleanup.

Current state law says the PSTIF will "sunset" on December 31, 2010. That date is still some years away, and there are no plans to end the program any sooner.

However, state law also requires the PSTIF Advisory Committee to regularly report "on the availability and affordability of the private insurance market." To fulfill this requirement, we believe it makes sense to pause and ask the following questions:

- * Is commercial insurance available for underground tank owners/operators?
- * If so, what is the cost of such insurance?
- * Do those commercial products meet the state and federal requirements as a "Financial Responsibility mechanism?"
- * What differences, if any, are there between the coverage provided by PSTIF and coverages offered by private insurers?
- * What are the pros and cons of tank owners obtaining insurance from PSTIF or from commercial insurers?

Therefore, this letter invites you to: (a) Send us any written information, comments or opinions you have on these issues by October 10 and/or (b) come to a public meeting on September 30 to present information or comments on these issues. The meeting will begin at 1:00 p.m. in Room 500, Harry S. Truman Building, 301 West High Street, Jefferson City, Missouri.



Petroleum Storage Tank Insurance Fund

P.O. BOX 836 • JEFFERSON CITY, MO 65102 • PHONE (573) 522-2352 • FAX (573) 522-2354

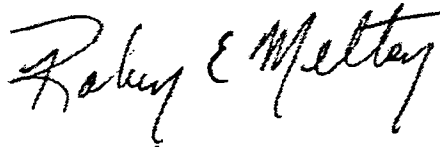
September 3, 2003

Page 2

Afterward, a report will be prepared for review by the PSTIF Advisory Committee and Board of Trustees. The report will then be issued, sent to Missouri legislators and made available to any other interested parties.

Again, please understand this is primarily an information-gathering and educational exercise, and does not reflect any intention to make changes to this program in the near future. Our goal is to engage in constructive dialogue and produce a useful report. We welcome your participation.

Sincerely,

A handwritten signature in black ink, appearing to read "Robin E. Melton". The signature is written in a cursive, flowing style.

Robin Melton
Chairman, PSTIF Advisory Committee

RM/tn

Insurance Companies

AIG Small Business Underwriting Center
1 Connell Dr.
Berkely Heights, NJ 07922

AIG Risk Management, Inc.
175 Water Street
New York, NY 10038

Nancy Richards
AIG
8000 Maryland Ave., Suite 1200
St. Louis, MO 63105

Chubb Group of Insurance Companies
Ten Petticoat Lane, Suite 300
Kansas City, MO 64106

Chubb Group of Insurance Companies
7733 Forsyth Blvd., Suite 1300
St. Louis, MO 63105

The Colony Group
9201 Forest Hill Ave., Suite 107
Richmond, VA 23235

Farmland Insurance Nationwide
1100 Locust St., Dept. 3010
Des Moines, IA 50391-3010

Federated Insurance
P. O. Box 328
Owatonna, MN 55060

Gulf Insurance
5775 Peachtree Dunwoody Rd., Ste. D-490
Atlanta, GA 30342

Trudy Norris
Hawkeye-Security
14567 North Outer 40 Rd., Suite 300
Chesterfield, MO 63017

Carol Kollings
Hawkeye-Security
P. O. Box 1848
Des Moines, IA 50306-1848

Rick Wertz
Ohio Casualty
P. O. Box 4403
Bridgeton, MO 63044

Karla Bullock/Dave Hyde
Ranger Insurance
10777 Westheimer
Houston, TX 77042

Chris Kerr
ChemPlan (Royal & Sun Alliance)
2201 Cantu Court, Suite 102
Sarasota, FL 34232

The St. Paul Companies
385 Washington St.
St. Paul, MN 55102-1396

Zurich North America
1400 American Lane
Schaumburg, IL 60196

PLEASE SIGN IN
PSTIF ADVISORY COMMITTEE
PUBLIC MEETING ON AVAILABILITY AND
AFFORDABILITY OF PRIVATE INSURANCE
September 30, 2003

1. Patrick J. Kuchetch, Wms	23.
2. Kim Andersen Smith & Co	24.
3. King & Ben Meyer ^{Cannon Dam} Operations Inc.	25.
4. John Balkenbush DNR	26.
5. Richard Brown DNR	27.
6. Jack BURST ^{Thompe} Inc.	28.
7. Diane Miller	29.
8.	30.
9.	31.
10.	32.
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16.	38.
17.	39.
18.	40.
19.	41.
20.	42.
21.	43.
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Appendix B
ASTSWMO QUESTIONNAIRE

*Information for Evaluating UST Financial
Responsibility Options*

ASTSWMO
**The Association of State and Territorial Solid Waste
Management Officials**

December 2002

Section 4. Example Check Sheet For Evaluating UST Financial Responsibility Options

Part 1 -General Questions

- ☐ What are the objectives of the State's Existing Financial Assurance Program?
- ☐ Does the current financial assurance mechanism being examined meet federal and state requirements for financial responsibility?
- ☐ What type of petroleum release sites are eligible for coverage under the current program and what types of sites will not be covered?
- ☐ What options are available for those sites not covered?

Part 2 - Questions Relating to Private Pollution Liability Insurance

- ☐ What issues are driving the evaluation of commercial insurance as a replacement or enhancement of the state financial assurance fund?
- ☐ Are there environmental or economic benefits to commercial insurance for the regulator, tank owner/operator or the state fund mechanism?
- ☐ Are there programmatic risks/benefits to commercial insurance?
- ☐ Will there be sufficient competition among providers of commercial pollution liability insurance to maintain fair and reasonable premiums for the long run?
- ☐ If commercial insurance becomes the primary FR mechanism, is there a need for a backup or alternate means of financial assurance if commercial insurers decide to slow or cease providing coverage?
- ☐ How will sites with pre-existing contamination be addressed?
- ☐ Will there be UST owners and operators who will be unable to obtain commercial insurance coverage and, if so, how will the implementing agency address this situation?

Part 3 - Questions Regarding Policy, Documentation and Coverage Issues of Private Pollution Liability Insurance

- ☐ What is the application process?
- ☐ What type of site information will the commercial insurer require before agreeing to insure UST systems?
- ☐ What type of compliance information will the commercial insurer require?
- ☐ What documentation or certification is provided to the insured?
- ☐ What dollar coverage limits are available from the insurance company for a UST policy?
- ☐ What deductibles does the commercial insurer offer?
- ☐ What operational requirements will the commercial insurer impose on the insured?
- ☐ What are the consequences if the owner does not comply with operational requirements imposed by the commercial insurer?
- ☐ What are the exclusions in the UST pollution liability policy, and what do the exclusions eliminate from coverage?
- ☐ Do the exclusions include denial of coverage due to paper violations, such as failure to report inventory records within an allotted time frame?
- ☐ How will premium rates vary between UST systems (i.e., replaced vs. upgraded, double-walled vs. single-walled, etc.?)
- ☐ What factors will cause insurance premiums to increase? For example, will premiums increase as a tank system ages?
- ☐ Will pollution liability insurance coverage be provided for all tanks, including bare steel tanks with cathodic protection that has been added?
- ☐ How will the insurance company distinguish between old contamination and new contamination?
- ☐ Does the insurance company offer any leak prevention or education programs?

Part 4 - Questions Regarding Claims Handling and Management by Commercial Insurance

- ☐ What is the claims process for the insurance company?
- ☐ What are the options for policyholders whose claim is denied?
- ☐ Who will manage cleanups?

Appendix C

Communications Received In Response To
The Advisory Committee's Mailing

Vee-Jay Cement Contracting Co., Inc.

8053 Chivvis Drive

• St. Louis, Missouri 63123-2333

• (314) 351-3366

• FAX (314) 351-5468

September 23, 2003

Missouri PTSIF
Attn: Robin Melton
P.O. Box 836
Jefferson City, Mo. 65102



Re: Response to survey sent on 9/03/03

Dear Robin,

Commercial insurance is available for underground tank owners/operators and is quite expensive even though we have never had any claims. PSTIF is very reasonable and we are quite happy with the service they have provided. If you have any further questions please contact me at 314-351-3366.

Thank you,

A handwritten signature in cursive script, appearing to read "Leonard Ehlmann".

Leonard Ehlmann
Controller

LE/tc

MIDWEST SYSTEMS

5911 HALL STREET • ST. LOUIS, MO 63147-2994 • (314) 389-6280 • FAX (314) 389-9443

Robin Melton
Chairman, PSTIF Advisory Committee
Petroleum Storage Tank Insurance Fund
P.O. Box 836
Jefferson City, MO 65102

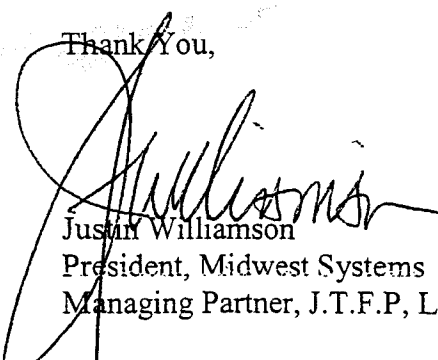
October 13, 2003
Re: Your letter dated 9/03/03

Dear Ms. Melton:

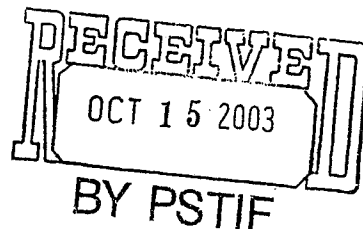
Midwest Systems uses two insurance brokers for our insurance. One said that they could not obtain quotes on any underground tanks. Our other broker said that they can obtain a quote for 1,000,000 occurrence/2,000,000 aggregate for clean up. If you need a copy of the type of policy that Zurich writes, I can obtain one for you. Obviously the cost will depend on the number of tanks and the area.

If you need any more information or want to discuss the points in your letter further, please contact me.

Thank You,

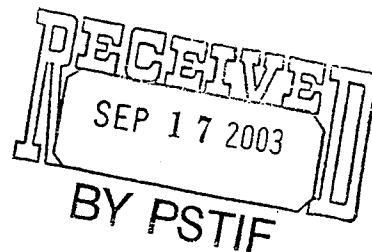

Justin Williamson
President, Midwest Systems
Managing Partner, J.T.F.P, LP

P.S. J.T.F.P, LP owns the property that the tank is located on. J.T.F.P. leases the property to Midwest Systems. Midwest Systems operates the tank.





3820 Wismann Lane
Quincy, IL 62305



September 9, 2003

Missouri PST Insurance Fund
Attn: Robin Melton
Chairman, PSTIF Advisory Committee
P.O. Box 836
Jefferson City, MO 65102

Dear Mr. Melton,

I am employed by Gully Transportation in Quincy, IL. We have terminal facilities in St. Louis, Mo, Kansas City, MO, Macon, MO, and Hannibal, MO. We have UST's at the St Louis and Kansas City facilities. We have above ground tanks at our Hannibal, MO site.

I have wondered for a long time, why the UST Insurance Fund does not include facilities such as our Hannibal facility. When there is a leak the contamination is in the ground. When there is a leak, most of the time it involves fuel supply lines which are almost always underground.

Our ultimate goal is to co-exist and protect our environment. It seems that many of the programs such as this one omit funding for what is all part of the big picture. I wish some consideration was given to this area.

My company has been loyal to the State of Missouri for many years providing support to it's communities as well as many jobs for many citizens of the State of Missouri. I wish that some consideration was given to situations like ours and others in the same situation.

When there is a problem, the people buying fuel in Missouri, Paying Missouri Fuel Taxes, Storing Fuel in Missouri, they are left out to fin for themselves when that unexpected expense happens along. I wish some consideration was made to this, so help is available to those who deserve it.

Respectfully,

A handwritten signature in cursive script, appearing to read "Duane E. Seals".

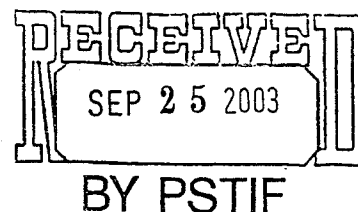
Duane E. Seals
Director of Safety



CITY OF CAMDENTON

51 Court Circle SW • PO Box 1048 • Camdenton, MO 65020 • (573) 346-3600 • FAX (573) 346-2926
www.camdentoncity.com

September 23, 2003



Ms. Robin Melton
Chairman, PSTIF Advisory Committee
P O Box 836
Jefferson City, Mo. 65102

RE: Mo. PST Insurance Fund Information Gathering

Dear Mr. Melton:

The underground tanks for the City of Camdenton are located at the Camdenton Memorial Airport. Upon checking with the carrier is our present Airport insurance we learned the following:

Yes: Commercial insurance is available for underground tank owners/operators

Cost: The cost would depend on the type and size of the risk

Yes: Commercial products meet the state and federal requirements as a "Financial Responsibility mechanism".

Differences: Contact could not provide this information without first reviewing the PSTIF form to compare coverages

Pros and Cons: Of course to the City of Camdenton the potential of additional financial burden would be a concern.

We understand this survey represents an information gathering process and your further information.

Sincerely,

Brenda Colter
City Clerk

bc

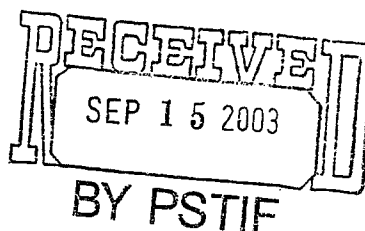
Cc: Elmer Meyer



City of Kirksville, Missouri
All-Missouri Certified City

September 11, 2003

PSTIF Advisory Committee
Petroleum Storage Tank Insurance Fund
PO Box 836
Jefferson City, MO 65102



Dear Sirs:

The City of Kirksville currently has coverage for our airport fuel tanks through PSTIF and we received your letter of September 3 asking about the availability of the coverage in the private market. We are a current member of MIRMA, (Missouri Intergovernmental Risk Management Association), which is a 60+ member pool of municipalities.

Our current property insurance excludes underground storage tanks that store anything besides water. Our liability insurance also excludes pollution issues which, if a leak occurred, would probably be labeled a pollution exposure.

As you know, the insurance market is currently excluding more and more coverages in addition to increasing costs to all coverage lines. During our last renewal period, some of our coverage outlines were reduced and the number of companies offering coverage were greatly reduced.

PSTIF coverage is a valuable tool to help us meet our financial responsibility in the rare occasion a tank would leak. We hope this coverage will continued to be offered.

Sincerely,

A handwritten signature in cursive script that reads "Jeanie Ewing".
Jeanie Ewing
Risk Coordinator

Buzz Westfall
County Executive

Saint Louis
COUNTY
ADMINISTRATION

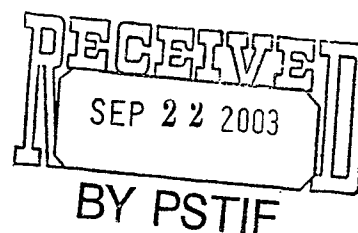
James E. Baker
Director of Administration

Frank Berra
Director of Procurement &
Administrative Services

September 15, 2003

Robin Melton, Chairman,
PSTIF Advisory Committee
Petroleum Storage Tank Insurance Fund
P.O. Box 836
Jefferson City, MO 65102

RE: Response to Inquiry on Availability &
Affordability of Private Insurance Market



Dear Ms. Melton:

The following correspondence is in reference to your inquiry regarding the availability and affordability of private insurance markets to provide environmental liability protection for underground petroleum tank owners.

1. Is commercial insurance available for underground tank owners / operators?

The commercial market has been providing this insurance for fifteen years and currently there is no indication that they will stop underwriting this risk.

2. If so, what is the cost of such insurance?

Varies, depending on tank installation date, type of construction, size of tank, type of tank, type of leak detection and contents of the tank. Typically a newly installed 10,000-gallon UST with leak detection, containing unleaded gas will cost about \$150 - \$300 per tank for \$1,000,000 of pollution liability.

3. Do these commercial products meet the state and federal requirements as a Financial Responsible mechanism?

Yes, many tank owners / operators are currently insuring their tanks with the private sector.

4. What differences, if any, are there between the coverage provided by PSTIF and coverage offered by private insurers?

Page 2

Response to Inquiry on Availability &
Affordability of Private Insurance Market

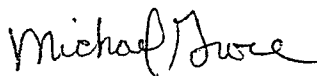
4. *Unlike the PSTIF, one major difference is that the private sector would not voluntarily provide coverage to non-operating sites that have incurred a pollution exposure unless a policy was issued and enforce at time of discovery. With the exception of that factor, probably no material differences, however, a policy analysis would have to be completed.*

5. What are the pros and cons of tank owners obtaining insurance from PSTIF or from commercial insurance?

It is unlikely, that PSTIF because of political implications would elect to abandon this market place. A commercial insure may decide at any time provided they give sufficient notice to the policyholder, that the company is no longer underwriting this risk.

Please feel free to contact me regarding these comments.

Sincerely,



Michael Grace
Manager, Risk Management

MG/dmc

Cc Frank Berra
J. Michael Dooley
Wayne Gromadzki



Division of Management Services

Risk & Insurance Management

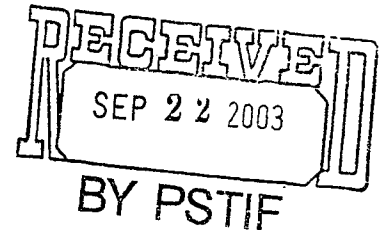
6 Clark Hall
Columbia, Missouri 65211
Telephone (573) 882-8577
Fax (573) 882-7861

INTERNET ID: flowersj@umsystem.edu

UNIVERSITY OF MISSOURI SYSTEM

September 18, 2003

Robin Melton
PST Insurance Fund
PO Box 836
Jefferson City, MO 65102



RE: PSTIF

I am writing in response to your September 3, 2003 letter. Our comments on the questions you asked are as follows:

- Is commercial insurance available for underground tank owners/operators?
 - Absolutely. The commercial insurance market has been providing this insurance for over 15 years.
- If so, what is the cost of such insurance?
 - Varies, depending on tank installation date, type of construction, size of tank, type of leak detection and contents. Typically a newly-installed 10,000 gallon UST with first-class leak detection, holding unleaded gasoline, can cost between \$150-\$300 per tank for \$1,000,000 limits annually.
- Do those commercial products meet the state and federal requirements as a Financial Responsible mechanism?
 - Yes, where allowed by state requirements.
- What differences, if any, are there between the coverage provided by the PSTIF and coverage's offered by private insurers?
 - Probably no material differences. However, this would take a policy analysis to adequately address.
- What are the pros and cons of tank owners obtaining insurance from PSTIF or from commercial insurers?
 - Major pro: It is probably much more difficult, due to political motivations, for the PSTIF to stop providing the coverage. Commercial insurers can do so whenever they want, needing to meet state-specific reporting and notice requirements.
 - Major con: Commercial insurers probably have a much more efficient way of handling and paying UST claims.

Regards,

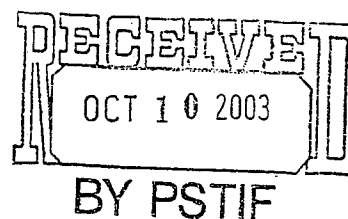

JeAnne Flowers

Assistant Director, Insurance and Risk Management

COLUMBIA KANSAS CITY ROLLA ST. LOUIS



October 7, 2003



Robin Melton, Chairman
Petroleum Storage Tank Insurance Fund
PO Box 836
Jefferson City MO 65102

Dear Ms. Melton:

We received your September 3, 2003, letter inquiring about the availability and affordability of coverage for tanks in the private insurance market.

Federated Insurance Company works with petroleum marketers and convenience stores throughout Missouri to handle their business insurance needs. Federated handles a number of lines of coverage for the petroleum marketer, however, does not specifically provide coverage for aboveground or underground storage tanks. Federated has partnered with several leading insurance carriers who specialize in this market. We have formed relationships in 40+ states through carriers who focus their energies and efforts on this line of business.

With that said, we believe we have the background to respond to your questions.

Is commercial insurance available for underground tank owners/operators?

Generally, we have been able to secure insurance coverage for underground tank owners and operators throughout the country without many problems.

Commercial underwriters closely underwrite the age of tanks, construction, inventory practices, management, as well as physical and geographical attributes. In general, we are able to secure coverage for submissions received assuming the above mentioned characteristics meet underwriting criteria.

What is the cost of such insurance?

Cost varies depending on perceived underwriting risks. The above mentioned characteristics apply when the underwriter looks at the file, location, and specific tank. Cost can fluctuate considerably, however, we generally see pricing for such tanks based on the coverage provided beginning around \$300-\$400 per tank.

Do those commercial products meet state and federal requirements as a "Financial Responsibility mechanism?"

Yes they do.

October 7, 2003
Robin Melton
Page 2

What differences are there between coverage provided by PSTIF and coverage offered by private insurers?

Differences vary considerably. While we are not experts on the Missouri Tank Insurance Fund, it is our perception that differences include a \$10,000 deductible (many private insurers start at \$5,000). An option for business interruption is available through the private market; pain & suffering, lost income, mental distress, loss of use, and punitive damages don't appear to be covered by the Fund and are available in the private marketplace. It also appears that current law provides cleanup costs to be reimbursed rather than indemnified on a first dollar basis, which many times is the situation with private insurance. To be more specific we would have to go on an insurance-by-insurer basis with the Fund to do a thorough analysis of coverage differences.

What are the pros & cons of tank owners obtaining insurance from PSTIF or from commercial insurers?

As mentioned above, there appears to be many coverage differences. Private insurers underwrite and offer different coverages to include not only those required by law, but to also try and take care of other business needs that face their clients. Since clients have diverse needs, they may be more accommodating in terms of coverage options that may not fit PSTIF or other funds.

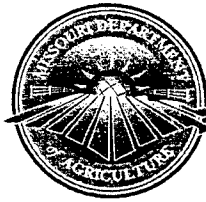
I hope our answers provide some high-level insight from our perspective. We can't comment on overall costs versus benefits paid out within the Missouri Insurance Tank Fund relative to profitability, but that will probably be an area you will address as part of your analysis as you look ahead.

We have seen successes across the country in the private market being able to meet the financial responsibility needs of our clients, the industry, and state and federal requirements. We hope these comments are useful for your review.

Sincerely,



David W. Ramsey
Senior Vice President
Director of Insurance Alliances
b



DEPARTMENT of AGRICULTURE
STATE OF MISSOURI
JEFFERSON CITY

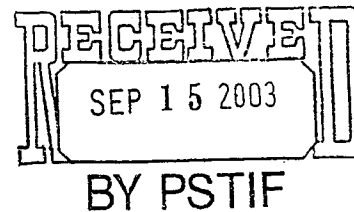
BOB HOLDEN
GOVERNOR

LOWELL MOHLER
DIRECTOR

*Serving, promoting and protecting the agricultural producers, processors
and consumers of Missouri's food, fuel and fiber products.*

September 12, 2003

Ms. Robin Melton, Chair
PSTIF Advisory Committee
Missouri Petroleum Storage Tank Insurance Fund
P. O. Box 836
Jefferson City, MO 65102



Dear Robin:

Thank you for the opportunity to comment on the questions contained in your September 3, 2003 letter. I also want to extend my sincere appreciation to you and the advisory committee members for all of the hard work and the support that you have given to the board of trustees and PSTIF.

As a member of the Petroleum Storage Insurance Fund Board of Trustees and the director of a state regulatory agency I have had the opportunity see the benefits of the Petroleum Storage Tank Insurance Fund. I, very obviously, am not an expert in insurance matters but do believe that the PSTIF offers many benefits to fund participants, the environment and Missouri citizens. As a layperson, it appears those benefits offered by PSTIF are well beyond what is available through a commercial insurance source including lower costs.

With the advent of the advisory committee and the overall involvement by the board of trustees, I believe the PSTIF is very responsive to those issues affecting tanks, tank owners and the environment.

I cannot speak for the other board members, however, if there is information available regarding commercial insurance and its potential benefits I am certainly interested in reviewing it.

Sincerely,

Ron Hooker, Director
Division of Weights and Measures

C: Carol Eighmey, PSTIF

*Forwarded
to Robin Melton
on 10/10/03
1:50 pm
Tina*

PSTIF

From: <EnvironmentalGuy@aol.com>
To: <pstif@sprintmail.com>
Sent: Wednesday, October 08, 2003 5:23 PM
Subject: Insurance Availability

Ms Eighmey:

I am writing this e-mail to you in response to Robin Melton's letter of September 3, 2003. The letter requested comment on insurance availability. The letter did not include an e-mail address so please pass this e-mail on to Robin Melton for me.

I have reviewed the September 3, 2003 letter from Robin Melton as well as the September 4 letter from Ms. Eighmey to Paul Miller and I would like to share some observations regarding the availability of commercial insurance to fulfill the Financial Responsibility requirements of UST owners in Missouri, and the implications of replacing the PSTIF with private insurance.

I offer the following comments in answer to the questions posed in the September 3 letter:

Commercial insurance for UST owners is available and the coverage will meet the Federal Financial Responsibility requirements. The cost of the insurance varies from State to State and tank to tank, but generally premiums run \$350 to \$700 per tank. In my last review of insurers, I found 8 companies with programs for UST Financial Responsibility in one or more States.

The coverage in the policies that I have reviewed is different from the coverage provided by PSTIF in many respects. The major difference is that commercial insurance products cover releases that occur during the policy period or after a specified retroactive date. The owners must demonstrate that the release occurred during the coverage period in order to make a claim under commercial insurance policies. Based on the September 4 letter from Ms. Eighmey to Mr. Paul Miller, 12 claims in 2002 would clearly meet the occurrence date test and 102 claims would either not meet the test or would be in dispute. This is typical of other States where commercial insurance is relied upon. Thus, when evaluating costs of the private insurance options, one should add the cost of claims not covered and the cost of resolving coverage disputes to the cost of the premium. In many cases tank owners have found that these additional costs are greater than the premium.

If commercial UST insurers were to provide as broad of coverage as PSTIF currently provides, the average premium would likely need to be in excess of \$1,200 per tank to cover all 114 claims made in 2002 and the insurance company expenses and profit. The total costs of insurance for new systems at virgin sites should be closer to the current premium levels, but previously occupied sites that have not had a complete clean up are likely to be much higher than the typical premiums charged in commercial UST insurance programs.

In addition I believe that the Board should consider the service needs of the UST owners when evaluating alternative programs. PSTIF currently provides a

great deal of guidance and support to UST owners in managing their remediation projects. Insurers differ in their approach to assisting UST owners with their clean ups, but typically commercial insurers are less proactive in assisting owners than PSTIF. The Board should evaluate the service needs of the UST owners to make sure that an appropriate level of assistance is available to all claimants in alternative insurance mechanisms..

A third area that the Board should examine in evaluating alternative insurance mechanisms is the management of on-going claims. Many of the claims will take years to resolve, which means that even if PSTIF quits accepting new claims, there will be many years of continued responsibility for current claims. The cost per claim managed would likely increase over time as PSTIF spreads their fixed costs over a declining number of claims. The Funds continue to incur large expenses and maintain large staffs in the States that have quit accepting claims in their Funds. This has been a disappointment to some in the legislative branch. The basic problem is that we as a society are still addressing the remediation costs of past environmental practices and commercial UST insurance programs that are currently offered are not designed to address these old releases.

I would encourage PSTIF to continue to evaluate alternative insurance structures. While there are many limitations to the commercial insurance market, it is possible to create a effective commercial insurance program that provides the required level of service, and continues to protect the environment. With 2,750 UST facilities, Missouri is a large enough market to support an effective private insurance program. However, careful planning and negotiation would be required to develop such a program.

Thomas Schruben
environmentalguy@aol.com
301 613 8858 cell

PSTIF

From: "Tunnickliff, Thomas G" <tunnictg@bp.com>
To: "Carol Eighmey (E-mail)" <pstif@sprintmail.com>; "Robin Melton (E-mail)" <robin@environmentalworks.com>
Sent: Wednesday, October 01, 2003 2:53 PM
Subject: UST Insurance Privatization

Carol and Robin,

I received Robin's letter on the above referenced topic dated 9.3.03. Unfortunately, I could not attend yesterday's meeting due to company commitments that had been scheduled previously. I have had an opportunity to research the subject to a small degree, and am sending this email in response to the questions posed in Robin's letter.

Commercial UST/AST insurance is available on the open market. It can be secured from a number of companies, but the biggest insurer of which I am aware is AIG.

The cost of private insurance generally runs about 5% of the total aggregate coverage. So if the applicant wants \$1 million in coverage over five years, the premiums will run about \$10,000 per year.

The commercial coverages can be constructed to fulfill an applicant's state or federal financial responsibility requirements.

The main differences between private insurance and state sponsored insurance provided by MO PSTIF is of course premium cost. Differences can also be found in deductible amounts and aggregate coverage totals. Pros and cons can be allocated similarly to the differences in the programs.

Please let me know if you care to discuss the issue further.

Take care, and travel safe.

Tom

Thomas G. Tunnickliff
Environmental Business Manager
Program Manager - Global Contract Laboratory Network
Group Environmental Management Company
A BP Affiliated Company
2240 Bluestone Drive
Saint Charles, MO 63303
Office: 636.916.8114
Fax: 636.949.5940
Cellular: 314.422.0249
Pager: 1.888.940.4244
Email: tunnictg@bp.com <<mailto:tunnictg@bp.com>>

The GEM home page on the bp intranet can be accessed using the following link: <http://gem.bpweb.bp.com/>

Sent: Tuesday, October 21, 2003 12:27 PM
Subject: RE: State Fund Info request - States that no longer have funds

Wisconsin began phasing out the fund as FR in 1995 and the state fund now only covers releases that occurred prior to Dec 22, 1998. From the technical side of the Wisconsin tank program, an operator's compliance conscience is impacted much more by our annual inspections and red-tag authority then moving from a state fund to another method of FR. Wisconsin is now requiring that O/O provide proof of FR on an annual basis via the permit renewal process. It is interesting the games that are being played on this. FR underwriters are wising up to what is out there and premiums are being adjusted accordingly. Some sites that were initially insurable are no longer, or at very high premiums, as the insurance industry is revising their criteria. We are now red-tagging dispensers and shutting down stations for failure to provide FR. . The petroleum marketers are also becoming aware of the changing FR environment and in Wisconsin appear to be launching a lobby effort to extend the existing state fund program to post 1998 upgraded systems.

From: Sheldon Schall, Chief
Wisconsin Department of Commerce
Storage Tank Regulation Section
PO Box 7837
Madison, WI 53707-7837
Tel: 608.266.0956
Fax: 608.261.7725
Web site: www.commerce.state.wi.us

To: State Fund Administrators

The following request is being made on behalf of Anna M. Richards of the New Mexico Environment Department, Petroleum Storage Tank Bureau

In New Mexico the state fund provides great incentive for the storage tank O/Os to stay in compliance with state regulations.

When state funds sunset and this incentive is gone, are states seeing a drop in the percentage of facilities that are in compliance?

Thanks
Anna

10/2

Phone conversation with Jennifer Miller, Underwriting Manager, Colony Insurance, Richmond, VA. Phone: 804-327-1809.

Ms. Miller called in response to Robin Melton's letter; wanted to understand what the reason for the letter is and find out how to stay involved in Missouri if/when there is consideration given to a transition to private insurance. Said she was somewhat hindered in answering the questions in the letter, as they are somewhat general in nature, but wanted to offer herself and her company as a resource.

I thanked her, and we then had a conversation about various aspects of UST coverage.

In response to questions from me, Ms. Miller explained two types of coverages: "Release trigger," and "Confirmed release trigger." She also mentioned "Loading and unloading coverage" as an option that is available; agreed with me this is not required by EPA UST regs. Noted coverages from different carriers differ, and even the same carrier can provide a menu of coverages; prices will obviously differ depending on what the owner buys.

Said her advice is always, "Buyer beware," as one needs to understand what coverage one is buying or not buying.

We also briefly discussed the annual State Fund Administrators' Conference; I noted I had met Art ????? at previous conferences and recall when he was a speaker on the program with Jim Sims from the state of Washington. She said Art is still with Colony and has been promoted to Marketing Manager.

A handwritten signature in cursive script, reading "Carol Eighner". The signature is written in black ink on a white background.

Appendix D

PSTIF ADVISORY COMMITTEE

APPENDIX D – PSTIF ADVISORY COMMITTEE

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BECA, Inc.
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Springfield, MO 65808

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DK Environmental, LLC
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Boonville, MO 65233

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